

Message Text

LIMITED OFFICIAL USE

PAGE 01 SAN SA 01808 112354 Z

11

ACTION ARA-17

INFO OCT-01 ADP-00 SCEM-02 INT-08 EB-11 COME-00 TRSE-00

AID-20 NSC-10 RSC-01 CIEP-02 SS-15 STR-08 OMB-01

CEA-02 OPIC-12 CIAE-00 DODE-00 INR-10 NSAE-00 PA-03

USIA-12 PRS-01 RSR-01 /137 W
----- 041241

R 112320 Z MAY 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 2811

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

LIMITED OFFICIAL USE SAN SALVADOR 1808

E. O. 11652 - N/A

TAGS: EIND, ES

SUBJECT: PETROLEUM: GOES ANNOUNCES GRANTING OF LETTER OF INTENT TO
JAMES CLEMENTS REFINERY CONCESSION

REF: SAN SALVADOR A-43 OF APRIL 10, 1973

GUATEMALA FOR ROCAP

1. SUMMARY: ON MAY 5, "LA PRENSA" REPORTED THE ECONOMY MINISTRY'S
"LETTER OF INTENT" TO JAMES CLEMENTS & ASSOCIATES CONCERNING ITS
PROPOSED REFINERY. TERMS IN THE LETTER APPEAR MORE RESTRICTIVE THAN
THOSE CLEMENTS TOLD THE EMBASSY HE SOUGHT, BUT THEY SHOW CAREFUL
CONSIDERATION BY GOES. EMBASSY HAS NOT HAD OPPORTUNITY TO DISCUSS
THE LETTER WITH CLEMENTS. LOCAL REACTION IS MUTE, PROBABLY
REFLECTING
SKEPTICISM. END SUMMARY.

2. ON MAY 5 AND ON SUBSEQUENT DAYS LOCAL NEWSPAPERS REPORTED THAT
THE
MINISTRY OF ECONOMY HAD ISSUED A "LETTER OF INTENT" TO JAMES A
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SAN SA 01808 112354 Z

CLEMENTS & ASSOCIATED CONCERNING THE LATTER'S PROPOSAL TO PROMOTE

AN INITIAL INVESTMENT OF \$250 MILLION FOR AN EXPORT- ORIENTED REFINERY WITH DEEP- WATER FACILITIES CAPABLE OF HANDLING SHIPS OF 500,000 TONS. THE INSTALLATION WOULD INVOLVE USE OF ABOUT 1,200 ACRES, EMPLOY SOME 4,000 WORKERS DURING THE 30 MONTHS OF CONSTRUCTION, AND 500 EMPLOYEES

THEREAFTER. THE ECONOMY MINISTRY WAS REPORTED TO BE VIEWING THE PROPOSED PROJECT " SYMPATHETICALLY" AND WOULD CONCEDE THE BENEFITS

APPLICABLE UNDER THE EXPORT PROMOTION LAW IF CLEMENTS' FINAL STUDY AND PROPOSAL ARE SATISFACTORY. THE MINISTRY REVEALED THAT THE REFINERY WOULD HAVE A MAXIMUM CAPACITY OF ONE MILLION BARRELS PER DAY

AND A MINIMUM OF 125,000. THE REFINERY'S PRODUCT WOULD BE EXPORTED ALTHOUGH ITS CAPACITY COULD ADD TO CENTRAL AMERICA'S DEMAND FOR FUEL. (UNCLASSIFIED)

3. THE MINISTRY'S RELEASE TO THE PRESS DID NOT CONTAIN DETAILS ABOUT EQUITY, FINANCING, SOURCES OF CRUDE, ROYALTIES TO THE GOES, AND THE POSSIBLE LOCATION OF THE REFINERY. LOCAL KNOWLEDGEABLE BUSINESSMEN COULD, HOWEVER, SURMISE THE LATTER BE AT ACAJUTLA, SINCE IT IS DEEP WATER, THE LARGEST PORT, AND HAS BEST FACILITIES.

4. THE EMBASSY HAS OBTAINED A COPY OF THE MAY 4 " LETTER OF INTENT" (COPIES POUCHED TO ARA/ CEN/ ES) SIGNED BY ACTING MCNISTER RAUL RAMOS.

THE MINISTRY'S LETTER IS MORE RESTRICTIVE ON TERMS OF OPERATION THAN CLEMENTS TOLD THE EMBASSY HE WAS SEEKING. A SUMMARY FOLLOWS:

A. THE NATURE OF THE PROJECT QUALIFIES IT FOR BENEFITS UNDER THE EXPORT PROMOTION LAW AS A NEW EXPORT INDUSTRY;

B. CONCERNING EXCLUSIVITY, THE GOES WILL HAVE TO ASSURE ITSELF THAT CLEMENTS WILL BUY EQUIPMENT AND FUEL AT THE BEST PRICES AND THAT CENTRAL AMERICAN (CA) OIL CAN BE PROCESSED IN THE REFINERY IF THE GOES SO DESIRES;

C. THE GOES IF FREE TO ESTABLISH ITS OWN REFINERY OR GRANT CONCESSIONS TO OTHERS FOR THE PURPOSE OF REFINING CA OIL OR EXTRA- REGIONAL OIL IF ITS USE IS PART OF A PETRO- CHEMICAL INDUSTRY;

D. GOES WILL AWAIT THE FEASIBILITY STUDY BEFORE JUDGING THE ENVIRONMENTAL IMPACT; IT RESERVES THE RIGHT TO FREE USE OF SOME OF ITS BY- PRODUCTS, AND IT ASKS FOR INSURANCE TO COVER ANY ENVIRONMENTAL DAMAGES;

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SAN SA 01808 112354 Z

E. TO TAKE ADVANTAGE OF THE ECONOMICS OF SCALE IN TRANSPORT, THE GOES COULD DESIGNATE THE PERCENTAGE OF THE IMPORTED CRUDE OR PRODUCTION FROM THE REFINERY WHICH SHOULD GO TO LOCAL CONSUMPTION (PAYABLE AT COST).

F. CONCERNING ROYALTIES PER BARREL, IT REFERS TO PRICES NEGOTIATED WITH OTHER GOVERNMENTS BUT POINTS TO SEVERAL FACTORS WHICH SHOULD BE TAKEN INTO ACCOUNT, E. G.,

(1) A PRICE ADJUSTMENT FACTOR TO COMPENSATE FOR INFLATIONARY EFFECTS,

(2) AN ADDITIONAL COMPENSATION REFLECTING COMPARATIVE ADVANTAGES WHICH THE REFINERY WOULD HAVE IN EL SALVADOR, SUCH AS NATURAL FACILITIES, LABOR SUPPLY, GOES PORT AND ELECTRICITY SERVICES;

G. PER ART 38 OF THE EXPORT PROMOTION LAW, THE GOES WOULD CONCEDE FISCAL BENEFITS FOR 10 YEARS AND SUBSEQUENTLY CONSIDER AN EXTENSION;

H. THE GOES WOULD CONSIDER A 30 MONTH PERFORMANCE CLAUSE IN THE CONTRACT/ CONCESSION;

I. CLEMENTS & ASSOCIATES CAN TRANSFER THE BENEFITS GRANTED UNDER THE LAW TO ANOTHER PERSON BY REQUEST TO MINECON;

J. THE TERMS OF THE COMMUNICATION ARE VALID FOR SIX MONTHS.

5. COMMENT: LOCAL PUBLIC REACTION TO THE ANNOUNCEMENT IS MUTE. SEVERAL BUSINESSMEN QUERIED BY US DISCOUNTED THE ENTIRE STORY AS BEING ANOTHER OF THE UNSUBSTANTIATED DREAMS OF THE GOVERNMENT. THE ROLE OF FONMIN BORGONOVO WAS MENTIONED IN ONLY ONE PAPER. THE LETTER REFLECTS THE ECONOMIC MINISTRY'S CAREFUL CONSIDERATION OF HOW TO MARRY CLEMENTS' DESIRES WITH THE CURRENTLY PENDING FIVE APPLICATIONS FROM OIL COMPANIES TO EXPLORE OFFSHORE AND WAS DRAFTED

BY THE MINISTRY'S LEGAL ADVISOR. ACTION ON THE LATTER APPLICATIONS AWAITS COMPLETION OF PROPOSALS AND ENACTMENT OF NEW

LEGISLATION. THE LANGUAGE IN POINT 'F' IMPLICITLY REFERS TO THE DIFFERENCE BETWEEN WHAT THE PROPOSED NICARAGUAN PROJECT AT MONKEY

POINT OFFERS AND THE AGGREGATE OF ROYALTIES TO BE PAID BY GON. IT WOULD APPEAR THE THE GOES WILL DEFINITELY LEAVE OPEN POSSIBLE LOCAL USE OF THE REFINERY'S PRODUCTS AND WILL HOLD IT TO SOME REASONABLE LEVEL OF ENVIRONMENTAL CONTROL. THE EMBASSY HAS NOT HAD AN OPPORTUNITY

TO DISCUSS WITH CLEMENTS OR HIS ASSOCIATES THEIR REACTION TO THE GOES LETTER, BUT MR CLIFTON TOLD THE AMBASSADOR MAY 4 THAT HE HAD LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 SAN SA 01808 112354 Z

BEEN ABLE TO COMMENT ON VARIOUS DRAFTS OF THE MINISTRY'S LETTER. CATTO

LIMITED OFFICIAL USE

NMAFVVZCZ

*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 11 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SANSAS01808
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: SAN SALVADOR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730543/aaaajcgh.tel
Line Count: 169
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 SAN SALVADOR A-43
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 16 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16-Jan-2002 by willialc>; APPROVED <06-Feb-2002 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> mcm 980209
Subject: PETROLEUM: GOES ANNOUNCES GRANTING OF LETTER OF INTENT TO JAMES CLEMENTS REFINERY CONCESSION
TAGS: EIND, ES
To: ARA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005